

# Rise of Southeast Asia as an economic hub

**EXCLUSIVE ANALYSIS** It has been some time since the name and importance of Southeast Asia suddenly re-emerged in discussions. The remarkable economic growth in the countries of this region has led to a notable position among the fastest-growing regions worldwide. Moreover, ASEAN (Association of Southeast Asian Nations) is gradually evolving into a geopolitical center, attracting international attention. Some analysts believe that countries in Southeast Asia can not only benefit from the support of multinational corporations amid escalating geopolitical tensions but also that this region is progressively transforming into a new global production hub. It quickly becomes evident that this region has been an appealing destination for Foreign Direct Investment (FDI) with an export focus long before the COVID crisis.

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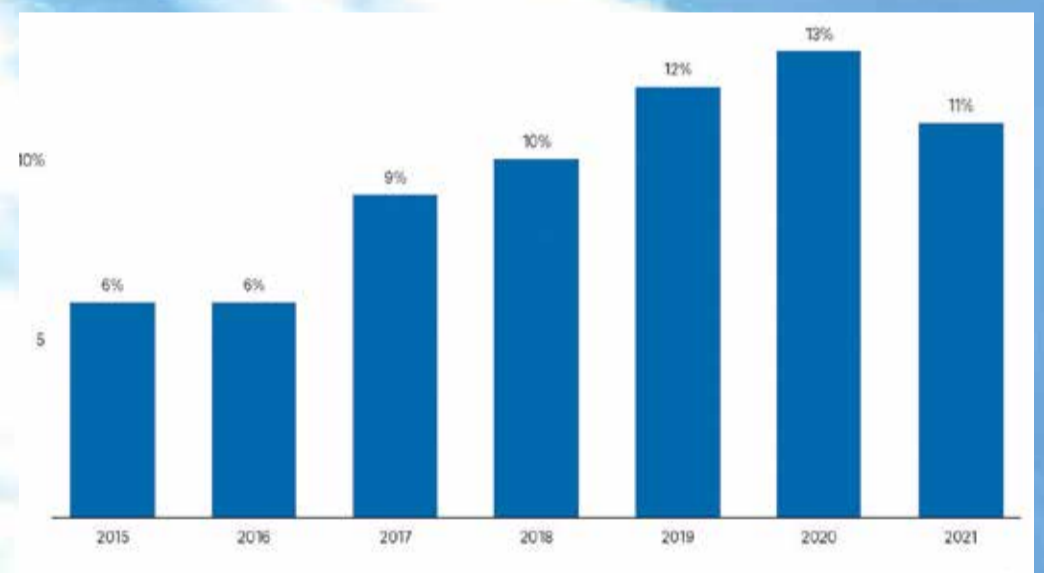
With rising business costs in China, Southeast Asian countries have gained a better position providing a more attractive environment for investment and collaboration. Since 2018, with increased US tariffs on imports from China and signs of growing trade separation between the two, Southeast Asia has experienced a notable improvement in its position. It is not only the United States increasing imports from this region, but China is also buying more goods from Southeast Asia while reducing its imports from the United States.

To clarify this claim, some examples can be mentioned. Vietnam and Cambodia's exports to the United States have increased by 165% and 231%, respectively. Although ASEAN's share of total US imports is not yet significant

(6.10% in 2022), this fact should not divert attention from the overall dynamics of the matter. Countries like Vietnam and Cambodia are emerging as production hubs, and it's not just the United States increasing imports from the region – China is following the same path. Now, the noteworthy point is the increasing trend of Foreign Direct Investment in ASEAN, particularly in the production sector.

Some structural changes based on recent developments are occurring, primarily favoring the supply chain of ASEAN. For instance, as China strengthens its targeted value chain, its cost advantage is diminishing, as labor is no longer as inexpensive as before.

Since 2013, production wages in China have doubled, reaching an average of around \$27.8



↑ Increase in the popularity of Southeast Asia among investors - Share of global FDI flow towards Asia (Percentage Share)

